MOOSE LAKE LOGGERS LTD.

ANNUAL REPORT

1990-91

92-03773/

MOOSE LAKE LOGGERS LTD.

BOARD OF DIRECTORS

John Martin - Acting Chairperson
Cattle Rancher - Moose Lake

R. Grey
Foreman - Moose Lake Loggers Ltd.

H. Boyle
Director - Regional Services Branch, Dept. of Natural Resources

L. Easter
Band Member - Moose Lake Indian Band

J. Mercredi
Logger - Moose Lake Loggers Ltd.

M. Bercier
Logger - Moose Lake Loggers Ltd.

G. P. Trithart
Department of Northern Affairs

OFFICERS

John Martin
Acting President

R. J. Kivisto
General Manager

G. P. Trithart
Secretary-Treasurer

HEAD OFFICE: Moose Lake, Manitoba

TABLE OF CONTENTS

	PAGE
I. INTRODUCTION	1
II. MAJOR DEVELOPMENTS	2
III. REVIEW OF RESULTS	3
A. Financial Results	3
B. Production	5
C. Related Activities	6
D. Training	6

APPENDIX - Audited Financial Statements for the Year Ended March 31, 1991

ANNUAL REPORT - MOOSE LAKE LOGGERS LTD.

APRIL 1, 1990 - MARCH 31, 1991

I. INTRODUCTION

Moose Lake Loggers Ltd. (MLL) is a Manitoba crown corporation. It was formed in 1971 under the authority of the Manitoba Natural Resources Development Act. The goals of the corporation are to create an economically viable logging operation, to provide employment opportunities for the residents of Moose Lake, and to help local residents to develop the skills necessary to operate and manage the entity.

MLL harvests sawlogs and pulpwood in tree lengths for sale, under specified contract, to Repap Manitoba Inc., The Pas (previously Manfor Ltd.). The volume of contracts vary with market circumstances. Eighty percent of the company's employees are people of aboriginal ancestry.

During the six year period ending March 31, 1977, the MLL experienced continuous annual operational losses which total approximately $551,000. However, over the next 11 years, the MLL's profits earned during the more productive years were used to offset operational losses in less productive years. Therefore, during that period, no government operational subsidies were required.

In 1988-89, Manfor Ltd. reduced its per cord rate by $7.05. This seriously effected the profitability of MLL. The reduction placed the operation in a situation which thereafter required annual operating subsidies.

The following figures illustrate MLL's past years actual profit and loss positions prior to receipt of government operating subsidy.

Year Ending March 31st	Profit (Loss)
1991	($ 96,751)
1990	(79,586)
1989	(183,517)
1988	(142,359)
1987	71,488
1986	(11,617)
1985	37,952
1984	(51,042)
1983	1,029
1982	(98,286)
1981	127,544

II. MAJOR DEVELOPMENTS

As part of MLL strategy to reduce excessive overhead costs and improve the efficiency of its operation a decision was made, in early 1990, to convert MLL from a 'camp based' to a 'commuter based' logging operation. Between May and August, 1990, an office, store, fuel outlet and parking complex was established at Crossing Bay. This became the marshalling point from which the loggers were transported to the cutting area.

Two major benefits which resulted from this change were an immediate reduction in overhead costs, and a noticeable decrease in absenteeism.

The Crossing Bay complex was established at a cost of $82,642. It is located approximately 22 miles from the community of Moose Lake.

In 1990-91, the Councils of the Community of Moose Lake and Moose Lake Indian Band reconfirmed their intention to take over the ownership and management of MLL. The councils have jointly retained the services of a private consultant whose mandate is to negotiate the terms and conditions under which the transfer of ownership can take place and to develop a business plan for the future operation of the entity.

During the summer of 1990, MLL planted 421,559 seedlings under the annual reforestation contract with Repap Manitoba Inc. (The previous year's contract was for 422,000 seedling trees.) The project created 37 seasonal jobs.

MLL utilizes 19 skidders in its harvesting operations. Eleven of these skidders are owned and operated by residents of the area.

III. REVIEW OF RESULTS

A. Financial Results

The appended financial statements for the fiscal year 1990-91 were audited by the Provincial Auditor. The statement reported an operational loss of $96,751 before the receipt of operating subsidy from the Province of Manitoba. This loss represents an increase of $17,165 over the 1989-90 deficit of $79,586.

The lower 1989-90 operational loss of $79,586 resulted from an unusual receipt of revenues. These included approximately $100,000 for boarding and lodging the Department of Natural Resources, forest fire teams and an additional $53,500 fire insurance claim for damage caused to a power plant and shed during the 1989 summer fires.

Without these extraordinary revenues, the estimated 1989-90 loss would have been approximately $233,000. Therefore, the 1990-91 operational loss of $96,971 actually represents an improvement of $136,029 on the previous year's operational loss.

The following comparative table illustrates the changes in per cord production costs for major expenditure categories over the past three years:

Cost Category	1990-91	1989-90	1988-89
Total Direct Logging Costs	46.96	42.93	42.95
Total Camp Operations Costs	5.91	15.52	10.57
Total Administrative Costs	6.62	5.30	3.83
Total Costs	$59.49	$63.75	$57.35

Direct logging costs (log cutting contracts)*: there is a $4.03 per cord increase in direct logging costs. This is represented by a $3.42 per cord increase in wages and benefits for loggers and $.64 per cord increase for skidder rentals.

* See Appendix 'Schedule of Operating Expenditures' (page 1)

Camp operation costs*: there is a substantial decrease of $9.61 per cord in camp operation costs. This is primarily due to the closing of the Talbot Lake Camp operations in June, 1990.

General and administrative costs**: the per cord administrative cost was increased by $1.32. This increase resulted from a 19% decrease in production.

There were significant cost variances from the prior year's general and administrative cost categories. These were as follows:-

- cost of wages and benefits were decreased by $19,613 (one office employee less);

- fees for professional services were increased by $14,488 (Provincial Auditor's fees previously paid annually in arrears were changed to current year, thus two years fees paid);

- miscellaneous costs were increased by $11,212 (cost of miscellaneous additional supplies payment of $6,942 in tax remittance penalties which are being appealed).

B. Production

MLL's total production in fiscal year 1990-91 was 38,214 cords. This represents is a decrease of 9,004 cords from the previous year. The year's

* See Appendix 'Schedule of Operating Expenditures' (page 1)
** See Appendix 'Schedule of Operating Expenditures' (page 2)

production was 11,682 cords or 19% below the budgeted figure. MLL did not reach its budgeted target owing to the fact that Repap Manitoba Inc. had imposed an across the board volume reduction on all of its woodlands operations.

The following table provides a comparison of annual production, in cords, for the last five years.

Year Ending March 31st	Owner/ Operator
1991	38,214
1990	47,218
1989	59,913
1988	48,608
1987	56,072

Related Activities

In 1990-91, MLL employed 54 persons (compared to 66 in 1989-90). The reduction can be primarily attributed to the closing of the Talbot Lake camp. Approximately 80% of those employed were native residents of Moose Lake, Cormorant, Cranberry Portage and The Pas.

The company maintained a commissary/grocery store for the benefit of the employees. This facility sold a variety of food products, confectionary items, and winter clothing. In addition, it served as a mail order office for skidder and power saw parts.

D. Training

The Company continued to provide on-the-job training.

Manitoba

Office of the Provincial Auditor

MOOSE LAKE LOGGERS LTD.

Auditor's Report and Financial Statements
for the year ended March 31, 1991

Office of
the Provincial Auditor

905 - 386 Broadway
Winnipeg, Manitoba, CANADA
R3C 3R6

AUDITOR'S REPORT

To The Legislative Assembly of Manitoba

We have audited the balance sheet of Moose Lake Loggers Ltd. as at March 31, 1991 and the statements of retained earnings, revenues and expenditures, and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

As reflected in note 11, the Company's unfunded pension liability as at March 31, 1991 was $140,003. In accordance with the Company's accounting policy, described in note 2, this liability and the related pension costs have not been reflected in these financial statements. In our opinion, however, this accounting policy is inappropriate because the obligations of the Company are not fully disclosed. If the unfunded pension liability and the associated pension costs had been recorded, the liabilities would have been increased and the retained earnings would have been decreased by $140,003. Also, pension costs for the year ended March 31, 1991 would have been increased by $4,877.

In our opinion, except for the failure to record unfunded pension liabilities, as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1991 and the results of its operations for the year then ended in accordance with the accounting policies stated in note 2 to the financial statements.

F.H. Jackson, CA
Provincial Auditor

Winnipeg, Manitoba
November 15, 1991

MOOSE LAKE LOGGERS LTD.

Head Office
MOOSE LAKE, MANITOBA

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements, and other financial information in the annual report, are the responsibility of management and have been approved by the Board. The accompanying financial statements were prepared by management in accordance with the accounting principles set out in Note 2 to the financial statements.

Any financial information contained elsewhere in the annual report conforms to these financial statements.

As management is responsible for the integrity of the financial statements, management has established systems of internal control to provide reasonable assurance that assets are properly accounted for and safeguarded from loss.

The responsibility of the Provincial Auditor and his staff is to express an independent opinion on whether the financial statements are fairly presented in accordance with the accounting policies stated in the financial statements. The auditor's report outlines the scope of the auditor's examination and provides the audit opinion.

Reijo J. Kiiristo
General Manager

Secretary-Treasurer

MOOSE LAKE LOGGERS LTD.

Balance Sheet
as at March 31, 1991
(with 1990 figures for comparison)

	1991	1990
ASSETS		
Current assets:		
Cash and bank	$ 36,469	$ (56,851)
Accounts receivable (Note 3)	240,970	598,906
Loans receivable (secured by chattel mortgages)	81,092	16,544
Inventories, at cost	44,736	59,439
Prepaid expenses	2,873	17,943
Total current assets	406,140	635,981
Fixed and other assets (Note 4)	103,992	32,173
	$ 510,132	$ 668,154
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank demand loan (Note 5)	10,000	130,000
Accounts payable and accrued liabilities (Note 6)	180,077	151,348
Total current liabilities	190,077	281,348
Shareholders' equity:		
Capital stock (Note 7)		
Authorized - 35,000 common shares for a maximum consideration of $350,000		
Issued and fully paid - 30,009 common shares	300,090	300,090
Contributed surplus:		
Grant from the Government of Canada towards capital expenditures	-	5,720
Retained earnings	19,965	80,996
Total shareholders' equity	320,055	386,806
	$ 510,132	$ 668,154

The notes are an integral part of the financial statements.

Approved by the Board:

Director _____

Director _____

MOOSE LAKE LOGGERS LTD.

Statement of Retained Earnings
for the year ended March 31, 1991
(with 1990 figures for comparison)

	1991	1990
Balance, beginning of year	$ 80,996	$ 20,582
Revenues over (under) expenditures	(66,751)	60,414
Transfer from Contributed surplus	5,720	-
Balance, end of year	$ 19,965	$ 80,996

The notes are an integral part of the financial statements.

MOOSE LAKE LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1991
(with 1990 figures for comparison)

	1991	1990
Revenues:		
Log cutting contract	$ 2,082,808	$ 2,479,081
Commissary sales	435,054	473,695
Board charges	13,344	271,676
Tree planting	104,292	112,076
Miscellaneous	18,018	41,624
Road maintenance	21,451	27,703
Interest income	11,312	4,797
Accounting service fees	-	600
Total revenues	2,686,279	3,411,252
Expenditures: (Schedule 1)		
Log cutting contracts	1,794,719	2,027,037
Camp operations	635,577	1,168,787
General and administrative	252,940	250,384
Tree planting	99,794	98,130
Total expenditures	2,783,030	3,544,338
Revenues over (under) expenditures, before operating assistance from the Government of the Province of Manitoba and extraordinary item	(96,751)	(133,086)
Operating assistance from the Government of the Province of Manitoba	30,000	140,000
Extraordinary item - Fire loss recovery	-	53,500
Revenues over (under) expenditures	$ (66,751)	$ 60,414

The notes are an integral part of the financial statements.

MOOSE LAKE LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31, 1991
(with 1990 figures for comparison)

	1991	1990
Cash Provided By (Used For):		
Operating activities:		
Revenues over (under) expenditures	$ (66,751)	$ 60,414
Depreciation and amortization not requiring cash	18,758	47,835
Reduction (increase) in working capital	351,890	(57,727)
Total cash provided by operating activities	303,897	50,522
Investing activities:		
Additions to fixed assets	(100,374)	-
Proceeds on sale of fixed assets	9,797	24,880
Total cash provided by (used for) investing activities	(90,577)	24,880
Increase in cash	213,320	75,402
Financial position, beginning of year	(186,851)	(262,253)
Financial position, end of year	$ 26,469	$ (186,851)
Financial position is represented by:		
Cash and bank	36,469	(56,851)
Bank demand loan	(10,000)	(130,000)
	$ 26,469	$ (186,851)

The notes are an integral part of the financial statements.

MOOSE LAKE LOGGERS LTD.

Schedule of Operating Expenditures
for the year ended March 31, 1991
(with 1990 figures for comparison)

	1991	1990
Log cutting contracts:		
Wages and benefits	$ 1,179,525	$ 1,296,317
Equipment rental	536,420	632,652
Fuel and oil	46,805	43,836
Miscellaneous supplies	8,877	26,883
Health and post secondary education tax levy	21,937	25,265
Repairs and maintenance	1,155	2,084
Total	$ 1,794,719	$ 2,027,037
Camp operations:		
Wages and benefits	$ 110,202	$ 317,129
Provisions	19,424	150,624
Repairs and maintenance	22,641	109,194
Fuel and oil	47,850	83,408
Depreciation	10,337	32,720
Freight	1,829	14,001
Insurance	10,254	12,008
Equipment rental	1,201	7,647
Health and post secondary education tax levy	2,058	5,929
	225,796	732,660
Commissary - cost of sales	409,781	436,127
Total	$ 635,577	$ 1,168,787

MOOSE LAKE LOGGERS LTD.

Schedule of Operating Expenditures
for the year ended March 31, 1991
(with 1990 figures for comparison)

	1991	1990
General and administrative:		
Wages and benefits	$ 137,039	$ 156,652
Professional fees	37,336	22,848
Miscellaneous	20,294	9,082
Directors' fees and salaries	8,851	8,514
Fuel and oil	9,447	8,241
Interest expenditure	7,295	7,951
Insurance	6,713	6,833
Travel	3,381	6,420
Communications	4,669	6,340
Directors' travel	6,008	5,023
Stationery and supplies	4,250	3,241
Health and post secondary education tax levy	2,535	3,103
Repairs and maintenance	3,641	3,069
Depreciation	1,539	2,448
Bad debts	(58)	619
Total	$ 252,940	$ 250,384
Tree planting:		
Wages and benefits	$ 90,010	$ 89,515
Bus and trucks	4,400	3,374
Miscellaneous	1,883	2,852
Health and post secondary education tax levy	1,626	1,745
Tools and bags	1,745	644
Equipment maintenance	130	-
Total	$ 99,794	$ 98,130

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1991

1. Nature of Operations

Moose Lake Loggers Ltd. was formed in 1971 under the Manitoba Natural Resources Development Act for the purpose of establishing an economically viable logging operation providing employment for residents of Moose Lake and the surrounding area. The Company also has a mandate to train local residents to fill the jobs created, with the ultimate goal being management by local residents.

2. Significant Accounting Policies

a) The accompanying financial statements have been prepared in accordance with generally accepted accounting principles except for administrative expenses and the pension plan expenses and liabilities.

Certain administrative expenses, as detailed in Note 8, are provided at no charge by the Government of the Province of Manitoba. These costs are not reflected in the financial statements.

The Company records pension plan expenses on the basis of current funding contributions. Current funding contributions are based on actual hours worked at prescribed pension plan rates. The Company does not record the unfunded liability as determined by the actuary and described in note 11.

b) Depreciation and amortization of fixed and other assets is provided to amortize the cost over the estimated useful life of each asset. The following rates are applied on a straight line basis, except for trucks which are depreciated on a diminishing balance basis.

	Annual Rate
Buildings	10%
Trailers	15-33 1/3%
Equipment	20%
Trucks	30%
Campsite and marshalling area improvements	12 1/2-33 1/3%
Main road construction	10 cents per cord sold

c) Log cutting contract revenues are recognized as revenue at the point of delivery to roadside and are based on quantities scaled in accordance with the terms of the sales contract.

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1991

3. Accounts Receivable

	1991	1990
Trade	$ 165,487	$ 443,400
Employees	45,483	15,506
Government of the Province of Manitoba	30,000	140,000
	$ 240,970	$ 598,906

4. Fixed and Other Assets

	Cost	Accumulated Depreciation & Amortization	1991 Net	1990 Net
Main road construction	$ 235,321			
Less grants received	156,000			
	79,321	$ 79,321	$ -	$ -
Campsite and marshalling area improvements	82,642	5,449	77,193	-
Buildings and trailers	455,109	455,109	-	437
Equipment	234,776	207,977	26,799	31,736
Total	$ 851,848	$ 747,856	$103,992	$ 32,173

5. Bank Demand Loan

The bank demand loan is guaranteed by the Government of the Province of Manitoba to a maximum of $500,000 including unpaid interest.

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1991

6. Accounts Payable and Accrued Liabilities

	1991	1990
Trade	$ 88,511	$ 55,076
Government of the Province of Manitoba	39,394	15,928
Wage deductions	26,943	49,562
Employees	25,229	30,782
	$ 180,077	$ 151,348

7. Capital Stock

The issued shares are held by the Government of the Province of Manitoba except for nine shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

8. Services Provided by the Government of the Province of Manitoba

The Government of the Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company. The cost of these services is approximately $36,000 (1990 - $36,800).

9. Economic Dependence

The Company is economically dependent on the Government of the Province of Manitoba and the Company's sole customer is Repap Pulp and Paper Inc.

10. Imputed Interest Cost Information

The annual borrowing cost to the Government in respect of its 1990 debt for the average investment of $300,090 in share capital at the weighted average rate of 10.6% (1989 - 10.05%) is $31,800 (1990 - $30,200). This cost is not reflected in these financial statements.

11. Pension Liability

The Company participates in a multi-employer pension plan for hourly paid employees represented by the IWA-Canada. A full actuarial valuation of the pension plan was performed as at December 31, 1989. On the basis of a projection, the actuary has estimated that Moose Lake Logger's share of the unfunded liability is $140,003 as at March 31, 1991 (1990 - $135,126).